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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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UNIVERSITY OF SOUTH CAROLINA

AGENCY

OCTOBER 1, 1989 - JUNE 30, 1993

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

December 3, 1993

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

I have attached the University of South Carolina procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University a three (3) year certification as outlined in the audit report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Hardy L. Merritt".

Hardy L. Merritt
Assistant Division Director

UNIVERSITY OF SOUTH CAROLINA
PROCUREMENT AUDIT REPORT

OCTOBER 1, 1989 - JUNE 30, 1993

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NOTE: The University's responses to issues noted in this report have been inserted immediately following the issues they refer to.

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HARDY L. MERRITT, Ph.D.
ASSISTANT DIVISION DIRECTOR

December 3, 1993

Dr. Hardy Merritt
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have examined the procurement policies and procedures of the University of South Carolina for the period October 1, 1989 through June 30, 1993. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and University procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the University of South Carolina is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

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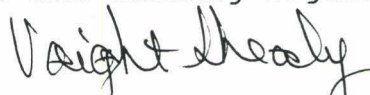
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the University of South Carolina in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



R. Voight Shealy, CFE, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating policies and procedures of the University of South Carolina. Our on-site review was conducted June 28 - August 20, 1993 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the University's Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the University in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

The Board previously granted the University of South Carolina procurement certification as follows:

<u>Procurement Area</u>	<u>Certification Date</u>	<u>Requested Limit</u>
1. Goods and Services	09/25/90	\$ 100,000 per commitment
2. Consultant Services		\$ 100,000 per commitment
3. Information Technology		\$ 100,000 per commitment
4. Vending and Concession Management Services	04/10/91	\$2,500,000 per contract
5. Construction Services	07/17/91	\$ 100,000 per commitment

The audit was performed primarily to determine if recertification is warranted. Additionally, during the audit the University of South Carolina requested the following increases in certification:

<u>Procurement Area</u>	<u>Requested Certification Amount Per Commitment/Contract</u>
Goods and Services	\$ 150,000
Consultant Services	\$ 150,000
Construction Services	\$ 250,000
Information Technology	\$ 150,000
Vending/Concessions Management Services	\$15,000,000

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the University of South Carolina and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected random samples of procurement transactions for the period July 1, 1990 - June 30, 1993, for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, our review of the system included, but was not limited to, the following areas:

- (1) All sole source, emergency and trade-in sale procurements for the audit period
- (2) Purchase transactions for the audit period as follows:
 - a) 200 systematically selected procurement transactions each exceeding \$500.00
 - b) A block sample of 1,050 purchase orders reviewed for splitting of orders
 - c) An additional 40 sealed bids issued and awarded from the audit period
- (3) Thirty-five permanent improvement projects out of which 5 architect-engineer selections and 30 contracts were reviewed for compliance with the Manual for Planning and Execution of State Permanent Improvements

- (4) The following vending/concession and other revenue generating contracts:
 - a) advertising and marketing services
 - b) operation of USC's trademark and licensing program
 - c) multi-media services
 - d) food and beverage vending service
 - e) canned soda and juices vending services
 - f) food services contract
 - g) bookstore operations
 - h) concessions services
 - i) coin operated amusement machines
- (5) All real property leases
- (6) Blanket purchase agreement procedures
- (7) Minority Enterprise Plans and reports
- (8) Information Technology Plan approvals
- (9) Procurement Policies and Procedures Manual
- (10) Procurement staff and training

SUMMARY OF AUDIT FINDINGS

Our audit of the University of South Carolina, hereinafter referred to as USC, produced findings and recommendations in the following areas:

PAGE

I. Compliance - Goods and Services

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Incorrect bidding procedures were used in awarding one contract.

II. Compliance - Departmental Order Splitting

9

Departments submitted split requisitions to the Purchasing Office in two cases to circumvent the sealed bidding procedures.

III. Compliance - Sole Source, Emergency and Trade-in Sale Procurements

A. Drug-Free Workplace Certifications

11

Thirteen sole source procurements greater than \$50,000 were not supported by Drug-Free Workplace certifications.

B. Inappropriate Emergency Procurements

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Two procurements did not meet the emergency criteria and should have been sealed bid.

RESULTS OF EXAMINATION

I. Compliance - Goods and Services

The Purchasing Office failed to solicit or document the required level of competition on a procurement of computer equipment. Purchase order 74550F for \$2,545.00 was supported by three written quotations rather than three sealed bids, as required by Regulation 19-445.2035.

The University must ensure the appropriate bidding procedures are used in the future.

UNIVERSITY RESPONSE

We concur that this procurement should have been procured by sealed bid. Although the initial cost was \$2,100 and the buyer followed correct procedures for a procurement in this price range, we concur that if quotes exceed the range limit, proper procurement procedures should be utilized. Corrective action has been taken and all buyers are aware of the required competition levels.

II. Compliance - Departmental Order Splitting

We noted two instances where groups of procurements should have been combined and competitively sealed bid instead of being handled under the Code's small purchasing procedures. In each group, these purchase orders were all supported by the same informal written quotes. Separate requisitions were submitted by departments to the Purchase Office at different times, thus giving the appearance that they were small purchases. These exceptions were as follows:

<u>Group</u>	<u>PO Date</u>	<u>PO#</u>	<u>PO Amount</u>	<u>Description</u>
1	05/27/93	44603	1,657.00	Computer equipment
	05/31/93	44621	1,657.00	Computer equipment
	06/04/93	45106	1,657.00	Computer equipment
	06/07/93	45115	<u>1,657.00</u>	Computer equipment
			<u>\$6,628.00</u>	
2	04/15/93	41315	625.00	Computer equipment
	04/16/93	41363	<u>2,245.00</u>	Computer equipment
			<u>\$2,870.00</u>	

Regulation 19-445.2100(a) states in part:

Any procurement under this Regulation not exceeding \$2,499.99 may be made by governmental bodies provided, however, that procurement requirements shall not be artificially divided by governmental bodies so as to constitute a small purchase under this Subsection. Procurements of supplies and services or construction initially estimated to exceed \$2,499.99 shall not be made by the small purchase method, even though resulting awards do not exceed such amounts.

By dividing the orders as shown above and submitting them individually to the Purchasing Office, requesting departments violated the Code. Each group of purchases listed above should have been combined into solicitations for sealed bids.

We recommend that the buyers be more aware of the methods that the departments are using to circumvent the competitive sealed bid process. Efforts should be made to stop these practices if departments attempt to split orders.

UNIVERSITY RESPONSE

The University Purchasing Office continually evaluates departmental procurements for order splitting. Continued efforts will be focused in this process.

III. Compliance - Sole Source, Emergency Procurements and Trade-in Sales

We tested all sole source, emergency and trade-in sale procurements for the audit period and noted the following exceptions.

A. Drug-Free Workplace Certifications

We noted thirteen sole source procurements for \$50,000.00 or more where the University did not obtain the required certifications from vendors that they were in compliance with the South Carolina Drug-Free Workplace Act. These contracts are as follows:

<u>PO#</u>	<u>Amount</u>	<u>Item/Service Description</u>
1. 6139G	\$ 87,166.80	Scientific equipment
2. 43921F	220,813.00	Subcontract with technical college for technology transfer
3. 44133F	235,000.00	Educational services with technical college
4. 34256G	171,666.00	Environmental monitoring system
5. 34255G	171,646.00	Environmental monitoring system
6. 90884F	218,600.00	Electron microscope
7. 84390F	138,406.00	Testing of electron-beam technology
8. 90900F	80,000.00	Scientific equipment
9. 91099F	65,000.00	Navigation equipment
10. 99622F	98,773.00	Workstations
11. 84307F	50,000.00	Lease of a streamer
12. 41954F	60,559.00	Research study
13. 72325F	67,460.00	Computer equipment

Section 44-107-40 of the South Carolina Code of Laws, 1976, as amended in 1991, requires that:

No state agency may enter into a domestic contract or make a domestic grant with any individual for a stated or estimated value of fifty thousand dollars or more unless the contract or grant includes a certification by the individual that the individual will not engage in the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance in the performance of the contract.

The University has not complied with the law in these cases.

We recommend that the University exercise more caution to ensure that sole source contracts greater than \$50,000 are not awarded unless the vendors complete Drug-Free Workplace certifications.

B. Inappropriate Emergency Procurements

The following two procurements should have been sealed bid rather than declared emergency procurements:

	<u>PO#</u>	<u>Amount</u>	<u>Description</u>
1.	42303	\$ 5,575.40	Chiller maintenance contract
2.	96728	3,850.00	Television set and VCR

Lack of planning at the departmental or satellite campus level does not meet the criteria for emergency procurements according to Section 11-35-1570 of the Code.

The Purchasing Office should not have accepted these as emergency procurements.

UNIVERSITY RESPONSE

- A. Procedures have been placed in effect to insure certifications are received for sole source procurements of \$50,000 or more. In addition, the Drug-Free Work Place affidavit has been added to the boiler plate of the sealed bid package.
- B. We concur. However, we feel that failure to declare one of these procurements an emergency could have affected the health, safety and welfare of students and employees.
-

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the University of South Carolina in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be accomplished by November 1, 1993.


Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the University of South Carolina be recertified to make direct agency procurements for three years up to the limits as follows:

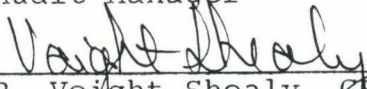
<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
I. Goods and Services	*\$ 150,000 per purchase commitment
II. Construction Services	*\$ 250,000 per purchase commitment
-Facilities Management Office, Columbia Campus Only	
-Plan Reviews for Architectural Projects Only	
III. Consultant Services	*\$ 150,000 per purchase commitment
IV. Information Technology in accordance with the approved Information Technology Plan	*\$ 150,000 per purchase commitment
V. Revenue Generating Management Services	*\$15,000,000 per purchase commitment

*Total potential commitment to the State whether single year or multi-term contracts are used.

UNIVERSITY RESPONSE

We are proud of the fact that based on the total amount of goods and services procured through the University of South Carolina System during this time period, the audit findings which resulted in a departmental response were extremely minimal. We believe the procurement procedures in place at the University of South Carolina are very solid, reliable and efficient. During this time period, October 1, 1989 - June 30, 1993, the Purchasing Department processed 251,746 purchase orders and DEVs for \$286,318,512 in goods and services.


James M. Stiles, CPPB
Audit Manager


R. Voight Shealy, CFE, Manager
Audit and Certification

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December 3, 1993

Dr. Hardy Merritt
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have reviewed the University of South Carolina's response to our audit report covering the period October 1, 1989 - June 30, 1993. Combined with discussions, correspondence and several meetings with University officials, we are satisfied that the University has corrected the problem areas we found during the audit.

We, therefore, recommend that the certification limit for the University of South Carolina as outlined in the audit report be granted for a period of three (3) years.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

RVS/jj

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